

## Message Text

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PAGE 01 EC BRU 05530 192006Z

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: RESULTS OF EC MONETARY COMMITTEE MEETING ON JUNE 18

REFS: A. EC BRUSSELS 5470

B. EC BRUSSELS 5415

C. EC BRUSSELS 4643

D. EC-A-89, MARCH 7, 1975

1. SUMMARY: THE EC MONETARY COMMITTEE COULD MAKE NO PROGRESS IN UNIFYING THE C'S POSITION TOWARD THE PROPOSED CHANGES IN THE IMF ARTICLES OF AGREEMENT. COMMISSION OFFICIALS EXPECT THIS IMPASSE TO CONTINUE. THE COMMITTEE ALSO DISCUSSED THE IRISH ECONOMY AND THE INDEXATION OF FINANCIAL ASSETS. THE COMMITTEE ALSO TOOK UP A COMMISSION PROPOSAL TO AUTHORIZE EURATOM TO BORROW IN THE CAPITAL MARKETS TO HELP FINANCE NUCLEAR POWER STATIONS. END SUMMARY.

2. POST MORTEM OF IMF INTERIM COMMITTEE MEETING:  
THE MONETARY COMMITTEE ASSESSED THE RESULTS OF THE  
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PAGE 02 EC BRU 05530 192006Z

IMF INTERIM COMMITTEE MEETING IN AN EFFORT TO ADOPT

A UNIFIED EC POSITION TOWARD THE IMF REFORM PACKAGE. (SEE REF C.) AT THE JUNE 16 FINANCE COUNCIL MEETING BELGIAN FINANCE MINISTER DE CLERCQ HAD ASKED THE COMMITTEE TO REDOUBLE ITS EFFORTS TO SEEK A COMPROMISE AMONG THE MEMBER STATES. LITTLE CAME OUT OF THE COMMITTEE'S DISCUSSIONS. THE FRENCH MAINTAINED THEIR INDEPENDENT POSITION, ESPECIALLY TOWARD GOLD AND THE EXCHANGE RATE SYSTEM. THE UK WAS THE ONLY MEMBER STATE TO APPLY PRESSURE ON THE FRENCH. THE OTHERS DID NOT WANT TO CREATE A ROW OVER THE DIFFERENCES WITHIN THE COMMUNITY.

3. THE FINANCE MINISTERS PLAN TO DEVOTE A MAJOR PART OF THE JULY 10 FINANCE COUNCIL TO A DISCUSSION OF THE ISSUES BEFORE THE INTERIM COMMITTEE. THE MONETARY COMMITTEE WILL MEET ON JUNE 25-27 TO PREPARE FOR THIS MEETING. DESPITE THESE EFFORTS, COMMISSION OFFICIALS ARE NOT OPTIMISTIC THAT THE EC WILL REACH A UNIFIED POSITION. THE FRENCH SEE NO REASON TO RUSH INTO A DECISION ON THE REFORM PACKAGE AND MOST OF THE OTHER MEMBER STATES SEEM TO HAVE NO STRONG INTEREST IN REACHING AN AGREEMENT QUICKLY.

4. COMMISSION OFFICIALS NOTE THERE ARE NO OVERRIDING REASONS FOR THE INDUSTRIALIZED COUNTRIES TO REACH PROMPT AGREEMENT ON THESE ISSUES. THE INTERNATIONAL MONETARY SYSTEM IS FUNCTIONING ADEQUATELY AT THE PRESENT TIME AND THE CURRENT IMF ARTICLES DEALING WITH EXCHANGE RATE SYSTEM AND GOLD REQUIRE NO IMMEDIATE CHANGE. THE OPEC COUNTRIES WOULD LIKE TO HAVE AN INCREASE IN THEIR QUOTA SHARES BUT THIS INCREASE IS NOT NECESSARILY IN THE INDUSTRIALIZED COUNTRIES' INTERESTS. COMMISSION OFFICIALS SAY THAT EXCEPT FOR THE UK, THE MEMBER STATES DO NOT SEEM INTERESTED IN PRESSING AHEAD TO REACH A COMPROMISE ON THE PACKAGE OF IMF ISSUES. THEY CONSEQUENTLY CONCLUDE THAT THE CURRENT IMPASSE IS LIKELY TO CONTINUE AND THE INTERIM COMMITTEE WILL AGAIN FAIL TO REACH AGREEMENT AT ITS NEXT MEETING.

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PAGE 03 EC BRU 05530 192006Z

5. REVIEW OF THE IRISH ECONOMY: THE MONETARY COMMITTEE'S DISCUSSIONS FOCUSED ON WHETHER THE IRISH POUND SHOULD BE REVALUED AGAINST THE BRITISH POUND. IT ALSO CONSIDERED HOW IRELAND COULD CONTINUE TO MAINTAIN A MONETARY POLICY INDEPENDENT OF MOST EC MEMBER STATES' POLICIES. NO AGREEMENT WAS REACHED ON THESE ISSUES. THE COMMITTEE WILL

WORK WITH THE COMMISSION IN DRAWING UP THE REQUISITE ECONOMIC POLICY CONDITIONS IN ORDER THAT IRELAND MAY QUALIFY FOR A LOAN FROM THE EC COMMON BORROWING FACILITY. (SEE REF A.) THE COMMITTEE PLANS TO WAIT UNTIL THERE IS A CLEAR INDICATION THAT A BORROWING WILL BE MADE BEFORE PREPARING THESE CONDITIONS.

6. INDEXATION OF FINANCIAL ASSETS: A WORKING GROUP OF THE COMMITTEE HAS COMPLETED A FIRST DRAFT OF A STUDY ON THE INDEXATION OF FINANCIAL ASSETS. THIS DRAFT CONCLUDES THAT SUCH AN INDEXATION SYSTEM IS NOT FEASIBLE BECAUSE IT WOULD CREATE DISTORTIONS IN THE MARKET AND IT WOULD BE PRACTICALLY DIFFICULT TO APPLY SUCH A SYSTEM. THE WORKING GROUP IS ALSO STUDYING THE POSSIBILITY OF GUARANTEEING THE FOREIGN EXCHANGE RISK OF FOREIGN HOLDERS OF FINANCIAL ASSETS. THE GROUP BELIEVES FOREIGN INVESTORS COULD REDUCE SUCH RISKS ON THEIR OWN BY ASKING THAT THE ASSETS WHICH THEY PURCHASE BE DENOMINATED IN SDRS, EC UNITS OF ACCOUNT OR SOME OTHER BASKET OF CURRENCIES. THE FRG IS OPPOSED TO USING THE DM AS A GENERAL UNIT OF ACCOUNT FOR PURCHASES OF FINANCIAL ASSETS IN THE EC. THESE STUDIES WILL PROBABLY NOT BE COMPLETED UNTIL SEPTEMBER.

7. EURATOM BORROWING TO FINANCE NUCLEAR POWER STATIONS: THE COMMITTEE IS PREPARING A RECOMMENDATION TO THE FINANCE COUNCIL REGARDING A DRAFT COMMISSION DIRECTIVE. THIS DIRECTIVE WOULD AUTHORIZE EURATOM TO BORROW UP TO 500 MILLION U.A. ANNUALLY IN THE INTERNATIONAL CAPITAL MARKETS TO HELP FINANCE THE CONSTRUCTION OF NUCLEAR POWER STATIONS. (SEE REF D.) MEMBER STATES DIFFERED ON WHETHER THESE LIMITED OFFICIAL USE

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PAGE 04 EC BRU 05530 192006Z

BORROWINGS SHOULD BE GUARANTEED BY BOTH THE MEMBER STATES AND THE COMMUNITY. THE FRG AND THE NETHERLANDS FAVORED USING ONLY THE COMMUNITY'S BUDGET AND THE TAXING POWER OF EURATOM TO GUARANTEE ANY BORROWINGS. THERE WAS ALSO DISAGREEMENT OVER THE NEED TO SET UP A SEPARATE FUND FOR SUCH FINANCING. SEVERAL MEMBER STATES NOTED THAT THE EUROPEAN INVESTMENT BANK HAD FINANCED A NUMBER OF NUCLEAR POWER PROJECTS. THEY ASKED WHY THE BANK COULD NOT CONTINUE TO BE THE COMMUNITY'S SOURCE FOR FINANCING SUCH PROJECTS. IN VIEW OF THIS OPPOSITION, COMMISSION OFFICIALS BELIEVE THAT IT WILL BE SOME TIME BEFORE THE FINANCE COUNCIL WILL TAKE UP THE DRAFT DIRECTIVE. GREENWALD

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